



**CANADIAN HATCHING EGG PRODUCERS**

**PRESENTATION TO THE SENATE STANDING COMMITTEE  
ON AGRICULTURE AND FORESTRY**

**ON**

**THE IMPACT OF THE TRANS-PACIFIC PARTNERSHIP ON  
CANADA'S BROILER HATCHING EGG INDUSTRY**

**PRESENTED BY:**

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**Ottawa, Ontario**

The Canadian Hatching Egg Producers would like to thank the Senate Standing Committee on Agriculture and Forestry for providing the Canadian Hatching Egg Producers with an opportunity to share its views regarding the potential impacts of the Trans-Pacific Partnership (TPP) agreement on Canada's broiler hatching egg industry.

### **Canada's Broiler Hatching Egg Industry**

The Canadian Hatching Egg Producers (CHEP) is the national organization that represents 228 broiler hatching egg farmers across six provinces spanning from British Columbia through Quebec. CHEP is engaged with Nova Scotia and New Brunswick and its 16 broiler hatching egg farmers to become members.

CHEP's nine-member Board of Directors is comprised of an independent chair, six farmer-elected representatives (one from each of the six member provinces), along with two hatchery members (one from the East and one from the West). The agency's activities are entirely funded by levies paid by broiler hatching egg farmers based on the number of broiler hatching eggs produced.

Established in 1986 under the *Farm Products Agency Act (FPAA)*, CHEP's primary responsibility is to ensure that broiler hatching egg farmers produce broiler hatching eggs that meet the needs of the Canadian chicken industry. Broiler hatching eggs are fertilized chicken eggs. They are shipped from the farm to hatchery facilities where they are placed into an incubator and hatched 21 days later into broiler chicks. These broiler chicks are then sold to chicken farmers who raise them into broiler chickens.

Canada's broiler hatching egg industry is responsible for importing a specified volume of broiler hatching eggs and broiler chicks through commitments under the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO). The combined annual access level for imports of broiler hatching eggs and broiler chicks is 21.1% of estimated domestic production for the year. These imports are subdivided into two separate and distinct access levels for broiler hatching eggs (17.4%) and for broiler chicks (3.7%) under separate tariff lines.<sup>1</sup> As such, roughly one in five broiler hatching eggs required in Canada is imported. The new additional access into Canada's broiler hatching egg market as part of the TPP agreement will further increase this volume.

### **2015 Industry Statistics**

Number of broiler hatching egg farmers:	244
Total Domestic Production:	711.6 million broiler hatching eggs
Farm Cash Receipts:	\$289 million
Broiler Hatching Egg Imports:	123.6 million broiler hatching eggs
Broiler Chick Imports:	16.4 million broiler chicks

When combined, Canada's broiler hatching egg farmers along with the 40 hatchery facilities they supply helped sustain more than 8,200 direct and indirect jobs across the country in 2013, while contributing more than \$443 million to Canada's GDP and more than \$113 million in total tax revenues.<sup>2</sup>

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<sup>1</sup> <http://www.international.gc.ca/controls-controles/prod/agri/incubation/notices-avis/873.aspx?lang=eng>

<sup>2</sup> Source: Kevin Grier Market Analysis and Consulting Inc.

## **Trans-Pacific Partnership (TPP) Agreement**

On October 5, 2015, the Trade Ministers of the twelve member countries of the Trans-Pacific Partnership (Canada, United States of America, Mexico, Peru, Chile, Australia, New Zealand, Brunei Darussalam, Singapore, Vietnam, Japan and Malaysia) announced that a final agreement had been reached, putting into place the largest multilateral trade agreement in history. Together, these twelve countries represent over 500 million people and an economy of over \$10 trillion.

As part of the agreement, the Canadian government agreed to additional market access for broiler hatching eggs, to be phased in over a 19-year period after the deal is implemented. The additional market access granted throughout the initial 5-year period will be provided through a new tariff rate quota (TRQ) totaling 12 million broiler hatching egg equivalents (1 million dozen), provided in six equal increments. This will be followed by an increase of 1% per year over the 12 million broiler hatching egg equivalents for the following 13-year period. Over the course of the 19-year rollout period, the new TRQ will total approximately 13.6 million broiler hatching egg equivalents per year, which represents almost 1.9% of CHEP's 2016 allocation.

At the time of the announcement, the previous Canadian government outlined the initial details of a proposed compensation package, which estimated that the average broiler hatching egg farmer would receive \$191,700 in compensation through the Income Guarantee Program over a 15-year period.<sup>3</sup>

The compensation proposed to Canada's broiler hatching egg farmers through the Income Guarantee Program totals approximately \$46.7 million based on Canada's 244 farmers. The net financial impact to broiler hatching egg farmers, outlined below, greatly exceeds the levels of compensation proposed to offset the negative effects of the TPP agreement.

While the TPP's impact on Canada's broiler hatching egg industry will be felt throughout the 19-year period, the losses associated with TPP resulting from new additional market access into Canada's broiler hatching egg market will be felt forever. All access granted under the TPP is permanent, with financial damages to be incurred indefinitely by farmers.

### **TPP's Impact on Canada's Broiler Hatching Egg Farmers**

Canada's broiler hatching egg farmers face a unique burden in that the potential impacts of the TPP will be dual in nature:

- (i) losses in domestic production as a direct result of additional access to the broiler hatching egg and chick market; and
- (ii) further losses in domestic production caused by the reduction in domestic chicken production which results from the additional access granted to Canada's chicken industry.

The expected losses to broiler hatching egg farmers as a result of the TPP can be categorized as follows:

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<sup>3</sup> <http://www.agr.gc.ca/eng/industry-markets-and-trade/agri-food-trade-policy/current-negotiations/bilateral-and-regional-negotiations-and-initiatives/trans-pacific-partnership/income-guarantee-program/?id=1443191240227>

**(i) Domestic broiler hatching egg production**

The cumulative losses in domestic broiler hatching egg production is 209 million broiler hatching eggs over the course of the 19 years, while an additional 316 million broiler hatching eggs will be lost based on the new additional access to Canada's chicken market. When combined, total losses are expected to reach 526 million broiler hatching eggs, which is equivalent to 2.2 million broiler hatching eggs in lost production per farmer over the 19 years or 114,000 broiler hatching eggs per farmer per year.

**(ii) Farm Cash Receipts**

The new additional access into Canada's broiler hatching egg market will result in losses to farm cash receipts of \$86 million and an additional \$131 million as a result of the chicken market access over the 19 years. The combined losses to farm cash receipts are projected at \$217 million, which is equivalent to \$0.9 million per farmer over 19 years or \$47,000 per farmer per year.

**(iii) Lost profits due to the new additional access to the broiler hatching egg and chicken markets**

Based on the new additional access into Canada's broiler hatching egg market, estimated losses to profits from foregone farm cash receipts will total approximately \$16 million over the 19 years with an additional \$24 million for the new chicken market access. When combined, total losses are projected at \$39 million over the course of the 19 years, which is equivalent to \$163,000 per farmer, or \$8,000 per farmer per year.

**(iv) Operating costs incurred by farmers on lost domestic production**

Broiler hatching egg farmers will continue operating their barns despite the losses to domestic broiler hatching egg production and will continue to face the same operating costs (fixed costs) to maintain these barns despite the reduced requirements for broiler hatching eggs.

These losses were calculated by multiplying the combined expected losses in domestic broiler hatching egg production over the 19 years (526 million eggs) against the typical share of a farmer's cost of production devoted to operational and capital costs (32%)<sup>4</sup> and the average broiler hatching egg selling price for 2014 (52.5 cents per saleable chick)<sup>5</sup>. The result is estimated losses totaling \$88 million over the 19 years, which is equivalent to nearly \$368,000 in losses per farmer or \$19,000 per farmer per year.

**(v) Net financial impact to broiler hatching egg farmers**

The net financial impact to broiler hatching egg farmers combines the losses to profits due to the new additional access to the broiler hatching egg and chicken markets with the losses to operating costs incurred by farmers on lost domestic production (combining the values from sections (iii) and (iv) above). The net financial impact to broiler hatching egg farmers is estimated at \$127 million over the 19-year period. This is equivalent to financial losses totaling \$531,000 for the average broiler hatching egg farmer over the 19 years or \$27,000 per farmer per year.

**Conclusion**

The creation of new additional guaranteed market access to the supply managed sectors will result in significant losses in domestic production as well as income, which has the effect of eroding the economic contributions made by Canada's supply managed farmers both to rural communities and also to Canadian society at large.

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<sup>4</sup> Based on the Cost of Production model for broiler chickens used by the Chicken Farmers of Ontario

<sup>5</sup> Calculated by CHEP based on the average prices reported in 2014 by the six provincial broiler hatching egg boards.

The estimated financial losses to Canada's broiler hatching egg industry is estimated at \$127 million over the 19 years after the TPP is implemented. This is equivalent to losses totaling \$531,000 per broiler hatching egg farmer or \$27,000 per farmer per year.

As stated previously, the compensation proposed by the previous government to Canada's broiler hatching egg farmers through the Income Guarantee Program totals approximately \$46.7 million. This compensation falls well short of the estimated losses expected to be incurred by broiler hatching egg farmers across Canada as a direct result of the new additional access for broiler hatching eggs and chicken that are part of the TPP agreement.

The overall impact the TPP will have on Canada's broiler hatching egg farmers will be felt throughout and well beyond the 19-year period. Estimated losses associated with TPP resulting from its increased market access into Canada's broiler hatching egg market will be felt forever. All access granted under the TPP is permanent access, with financial damages to be felt indefinitely by farmers.

In closing, we wish to thank the Senate Standing Committee on Agriculture and Forestry for granting us the opportunity to present our views.